



# The Real Estate ANALYST

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*As I see*

## THE FEDERAL GOVERNMENT IN THE HOUSING FIELD

DURING the first 128 years of the history of the United States the Federal government was responsible for housing only military personnel and a few government officials, such as the President. Then, because of the shortage of housing for defense workers during World War I, it became involved in lending to limited-dividend corporations for nongovernment personnel, principally shipyard and defense workers. After the war this program was disbanded at a considerable financial loss to the government.

The next Federal interference with the housing market came during the 1930's. Because of unemployment in the construction field, government loans were made to private limited-dividend corporations to build housing for low-income families. This program resulted in relatively little building.

This was followed by direct building of public housing, which has since mushroomed, particularly in the larger cities, until today there are 585,212 such housing units completed or in progress.

At about the same time that public housing was initiated, the Federal government entered into a program of insuring mortgages which were made for long periods, amortized monthly, with small downpayments. On December 31, 1959, FHA had \$30,829,846,000 insurance outstanding.

In 1949 urban renewal activities were started throughout the United States under Federal assistance, and these activities are increasing rapidly in many cities of the United States at the present time. At the end of December 1959 capital grant reservations amounted to \$1,347,400,000.

Some time ago Norman Mason, Administrator, Housing and Home Finance Agency, contracted with Dr. Ernest M. Fisher of Columbia University to make a study of the widespread real estate activities of the Federal government, with recommendations. Professor Fisher, in addition to having taught urban land economics in several universities over a long period of years, was at one time director of education and research for the National Association of Real Estate Boards. Later, for six years, he was director of the division of economics and statistics and economic advisor to the Federal Housing Administration, was research director in mortgage and real estate finance to the American Bankers

Association, and has acted as a consultant to various Congressional committees, the Federal Reserve Board, etc.

In his report,\* which was made in January 1960, Dr. Fisher makes some penetrating comments on the basic problem. In one place he says, "So long as people continue to occupy inferior dwellings--either because they cannot afford or cannot secure access to better dwellings, or because they prefer to spend their money on non-housing items--or so long as people are unwilling or unable to take care of the dwellings in which they live, slums and blighted areas will not be eliminated." To my way of thinking this is equivalent to saying that, in spite of our government programs, slums and blighted areas will not be eliminated, as one of the basic difficulties is not primarily physical but is psychological and economic. In another place Fisher, in his report, says that slums ". . . cannot be abolished solely by tearing down old structures and building new ones."

For more than 30 years I have maintained that many of the problems of our slum areas would have been solved years ago had we enforced strictly the health and safety provisions which have been on our books for 50-odd years. Fisher seems to agree with this but states, "Public authorities cannot morally pursue a course which leads to throwing any considerable number of persons out on to the streets, whether they be families or roomers." With this I do not agree.

If a residential building has deteriorated to the point where it is no longer adequate from the standpoint of health and safety, I believe that the police powers of the municipality should be invoked to require that this building either be put in satisfactory shape or be condemned, in spite of the fact that this policy will inevitably raise the rents of the tenants.

I have always been a strong believer in individual freedom. I believe that every person has the right to spend any money he might make in any way he sees fit. The maximum enjoyment from the spending of that money for one family might indicate living in a substandard house equipped with a first-class television and with a new automobile parked in the street. For another family the greatest satisfaction might be received by sending its children through college, although doing so restricted other family purchases generally considered as necessities. A third family might prefer more and better housing space, although it restricted the amount spent for other items in the budget.

Many tenants are spending very small percentages of their income for rent and will continue to skimp on their rent payments if they can find housing accommodations at the low figures to which they have become accustomed. Safe and sanitary housing cannot be supplied at these figures, and if the unsafe and

\*Ernest M. Fisher, A Study of Housing Programs and Policies, Housing and Home Finance Agency, January 1960.

unsanitary housing is removed from the market, they will necessarily readjust their family budgets to include the minimum amount which this housing will require. For some tenants this may be a greater hardship than reducing the amount they spend on automobiles and gasoline. In a few cases it may increase the welfare load on the community. I have seen no suggestions, however, that people be allowed to drive dilapidated and unsafe cars on our highways because they could not afford cars which would pass a minimum inspection.

The unfortunate part of the nonobservance of our health and safety provisions is that dilapidated slum properties have been overcrowded and have yielded a high percentage of return to the landlord for what amounts to illegal occupancy. When it becomes advisable to condemn these properties for urban renewal, the landlord in court can use the earning record to substantiate a high value where no real value exists. Unfortunately, a jury in a condemnation case will not take from a property owner a property which has no real value but which has been bringing in a large income, without allowing the property owner to capitalize that income. This has increased tremendously the cost to the Federal and municipal governments of every urban renewal project, and has sustained values on tenement properties which otherwise would have dropped to the point where these properties could be redeveloped without Federal subsidy. It seems to me that the Federal subsidy which we must pay is, in most cases, a penalty for not having forced compliance with minimum housing standards.

The basic problem of housing the low-income groups in new housing can be summarized in this fashion. The minimum number of square feet in one unit of a multiple dwelling would certainly not be below 412 square feet. The minimum cost at which this space could be produced in St. Louis at the present time is \$11.33 per square foot. In order to amortize the investment, pay a return, and pay real estate taxes, a minimum rent of \$52.00 would be required.

It has been said that the difference between a mentally unbalanced individual and an individual with sound reasoning is that the first believes that two and two might make five. The second realizes that two and two always equals four but it worries him. Just so long as two and two equals four, it will be impossible to house the lowest income group in new housing. This does not mean, however, that the lowest income group cannot be housed in more satisfactory housing than much which we now allow to continue in our slum areas. Dr. Fisher points out, "The permanence and immobility of housing structures enable them to survive for long periods of time. Though neglected and even abused, they may provide a minimum of shelter and privacy to generation after generation. While many additional services of a much higher quality can be rendered by newer structures that embody the product of scientific and technological advances, the more primitive services provided by the old structures remain available."

It seems to me that if all of the forecasts of increases in the average ex-

pendable income during the 1960's and 1970's are true, a great deal of the older housing will not be desired by the middle and upper income brackets. Each year, however, the percentage of our housing inventory which will pass the 50-year age mark will increase. From the number of urban families in 1850, I would estimate that there were probably in excess of 400,000 urban dwelling units in 1900 that were 50 years of age or older. Clearly, the number of dwelling units which will pass the 50-year age mark each year depends on the number that were built 50 years ago less the demolitions and casualties. At the turn of the century, probably not more than 40,000 dwelling units a year were crossing the 50-year age line, while now it seems probable that more than 250,000 units are passing that point each year. By 1980 it will probably exceed 400,000. The supply of older residential dwelling units will probably exceed the demand. This would result in their rents' dropping to a relatively low level.

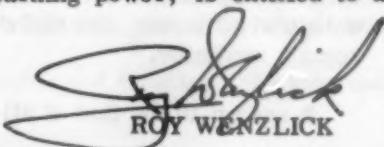
Dr. Fisher has some suggestions in his report on the modernization and rehabilitation of existing structures. This is quite frequently much cheaper than putting up new buildings. In place of public housing as we now have it he suggests that low-income families could be housed in many of these buildings through rent subsidies. He suggests that public construction crews could be used if private contractors are unwilling or unable to take the risk. He sets up certain safeguards against profiteering on the part of owners after properties have been modernized at the taxpayer's expense.

Another recommendation of Dr. Fisher in his report is that all Federal programs which affect housing be integrated into a single unit. This would be followed by an integration at the community level, combining housing agencies into one public agency through which all assistance, annual subsidies, and capital grants would be channeled. The final step would be the establishment of an expanded local long-range "workable program" which would combine public housing, community facilities, and urban renewal into an integrated program for an area regardless of political boundaries.

Local agencies should be given wider latitude in the use of Federal funds. Control would be established by making local government bodies match the Federal funds in cash at a single ratio determined by Congress.

I believe that this integration might be good. I think that greater efficiency might be achieved at a lower cost to the taxpayer.

I believe that any solutions I might offer would come no closer to solving our housing problems than those of Dr. Fisher. I think our difficulty lies in the assumption that everyone, regardless of earning power, is entitled to a particular standard of housing.



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